

# County Fair Financial and Contract Management

## Report No. 95-09 -- Report Summary

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### INTRODUCTION AND BACKGROUND

The financial/management audit of the County Fair financial and contract management practices was authorized by the Metropolitan King County Council in the 1995 Auditor's Office work program. The audit was prompted by a complaint filed by a citizen.

The King County Fair is a five-day fair held annually in July at the County Fairgrounds in Enumclaw. The annual Fair is agriculturally oriented, featuring exhibits by youth in organizations such as 4-H and Future Farmers of America. The Fair also offers a variety of entertainment and other activities, including a carnival. While the fairgrounds are used for other events throughout the year, about 85% of all revenues are generated from the annual King County Fair.

The King County Fair and the County Fairgrounds are managed by the County Fair Section, organizationally located in the Parks Division of the Department of Parks, Planning and Resources. The section is staffed by three (3) full-time employees; the Fair manager, an office coordinator and a maintenance specialist, and a part-time/ temporary employee. The annual Fair and some of the other off-season events are staffed with temporary employees.

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### OBJECTIVE AND SCOPE

The objective of the audit was to review the Fair's financial and contract management policies and procedures. The audit focused on financial and administrative policies and procedures, including relevant internal controls, related to the operation and management of the annual King County Fair.

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## SUMMARY STATEMENT OF FINDINGS

The general conclusion of the audit was that the Fair's community service, educational, recreational and entertainment aspects need to be balanced with the Fair's ability to enhance its revenue making potential. The audit found that the Fair has incurred operating losses in four of the last five years (1990 - 1994) and, in the last two years, the losses have approached \$140,000 per year. These losses were covered by the Current Expense fund. Moreover, while the Fair has been operating at a loss, the audit found that there are certain "business aspects" of the Fair which detract from the Fair's revenue-making potential. These included a high ratio (about 75%) of free admissions to the Fair, and special status or discounts granted to certain concessionaires and exhibitors. The audit also identified some need for improvements in the Fair's contract management procedures and operational internal controls.

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## MAJOR FINDINGS AND RECOMMENDATIONS

Finding II-1. County Fair lacks an overall mission/goal statement, thereby inhibiting the development of clear and consistent policies and procedures for management of the Fair.

Audit staff noted that the Fair lacks an overall direction which guides its operations and administration, especially with respect to the "business aspects" of the Fair. The Fair has incurred operating losses in four of the last five years, with the losses approaching \$140,000 per year in the last two of these years. Such shortfalls in revenues to cover the operating expenditures of the Fair are funded by Current Expense funds. Moreover, while the Fair has been operating at a loss, there are certain aspects of the fair which detract from the enhancement of potential revenue.

One such aspect is the high ratio (about 75%) of free admissions to the Fair. It was also noted that certain concessionaires and exhibitors may be granted special status and/or discounts. The audit notes that there may be underlying reasons, such as community service, educational, recreational, and entertainment aspects of the Fair, for the Fair's free admission and special status to concessionaire/ exhibitors. However, the beneficial aspects of the Fair come at the cost of a Current Expense subsidy to cover operating losses. The Audit notes that the balance between benefits of the Fair and the financial impact on the County's Current Expense fund has not been formally addressed by the Executive or the Council.

*The audit recommended* that the Executive should prepare an overall mission and goal statement(s) for the County Fair for review by the Fair Board and approval of the Metropolitan King County Council. It was also recommended that, based on the mission and goal statement (s), Fair management should prepare a business plan with policies and procedures for the Fair.

Finding II-2. Fair Board appears to take an active role in the activities of the Fair, but it lacks detailed rules and regulations for conducting its business.

The King County Fair Board, consisting of 20 members, exists to provide recommendations, advice and assistance in the planning and conduct of the King County Fair. Its roles and responsibilities are defined in Ordinance 11782. Audit staff's review found that the Fair Board appears to be actively involved in guiding the operations of the Fair. Furthermore, their discussions addressed larger issues, such as expanding the Fair to 10 days and acquisition of contiguous property for expanding the Fairgrounds. Audit staff did note, however, that the Fair Board lacks detailed policies and procedures for conducting its business, such as election of its

officers, attendance, removal of members and residence requirement for its members.

*The audit recommended* that the Fair Board should prepare detailed rules governing its operation. It should be noted that such a requirement was also imposed under Ordinance 11782.

Finding II-3. Fair does not maintain an accurate count and details of attendance, thereby lacking in critical overall operating control data.

The audit found that, currently, the attendance statistics maintained by Fair management are a combination of ticket sales count and an estimate of other attendees, primarily the free admissions. It is audit staff's opinion that an accurate count of attendance, including the total and a breakdown of its components, would be an excellent gauge of the success for various fair activities. For example, attendance can be a measure of the effectiveness of various promotional campaigns and "draw appeal" of various forms of entertainment. Additionally, a more accurate attendance count can be used as control data to provide the reasonableness of revenue data provided by contracted service providers, such as carnival ride proceeds and percentage of proceeds remitted to the fair by food vendors.

*The audit recommended* that Fair management should design a more effective system to capture overall Fair attendance data, and data related to the various classes of attendees, such as adults, senior citizens, students, and children.

Finding III-1. The Fair does not fully comply with its own policies and procedures for fair booth space rental, thereby impacting the Fair's cash flow and potentially its profitability.

The County Fair Section has detailed policies and procedures on fair booth space rental requirements dealing with commercial vendors. While audit staff found adequate compliance to substantially all of the procedures, we found that more strict adherence to two of the policies and procedures would benefit the Fair. First, audit staff found that nearly half (48%) of the vendors failed to remit the space rental reservation payment(s) on a timely basis. Second, it was noted that despite the policy which states, in effect, that 10 food concessionaires who have the lowest rate of sales/concession payment may not be invited back, several vendors who consistently ranked among the lowest appeared to be invited back year-after-year. It is audit staff's opinion that stricter compliance to these two policies would enhance the Fair revenue and cash flow.

*The audit recommended* that County Fair management should strictly enforce the requirement for the space reservation payment(s). It was further recommended that Fair management should be more proactive in the enforcement of the "lowest 10 concession payment" provision and remove food vendors who remit lower than expected rental payment. However, in recognition of the fact that some of these food vendors are non-profit organizations using the Fair for fund raising opportunities, audit staff suggested a special provision for non-profit food vendors.

Finding III-2. The contractual process and the contract formats used for some goods and services are inconsistent, not subject to good business practices, and may expose the county to liability risk.

The audit found that most of the contracts for goods and services obtained to operate the fair appear to be executed consistently and in compliance with the County's purchasing requirements. However, there is a group of contracts which appear to be obtained rather informally and are not subject to good business practices. These are vendors who supply "food items" (meat, bread, produce and ice) for the Fair's food concessionaires. Arrangements to obtain these vendors are done informally through a letter of solicitation issued by the Fair Section. The central Purchasing Agency is not involved, and thus no standard bid documents are used, bids are not advertised, and no formal contracts are signed.

Additionally, fair management has not requested any liability insurance requirement covering the County for these suppliers. Therefore, the County could be exposed to a liability risk for the

food consumed during the Fair as the official sponsor/host of the Fair, and, also because of the fact that the County selected these suppliers.

*The audit recommended* that Fair management should review its bid/contract process for the supplier of food items to the Fair concessionaires. Such review should involve input from the Office of Risk Management and the Purchasing Agency to ensure that good business practices are applied and all relevant purchasing requirements are met, especially with respect to insurance requirements.

Finding III-3. Compliance with the carnival contract is not strictly enforced and some of the carnival's business conducted at the Fair may be outside the provisions of the contract.

The carnival is a large part of the Fair and significantly impacts the Fair's success operationally and financially. The proceeds from carnival operations averaged nearly \$125,000, or about 18% of the Fair's 1993 and 1994 revenues. A formal bid process and contract are used for the carnival vendor. Within the contract are three aspects of carnival operations which the vendor is authorized to conduct and contractually remit a fixed sum and/or percentage of its gross revenue as compensation to the County. First, and the largest, of these remittances comes from the rides which amounts to about \$100,000. Control over this revenue item is adequately established through control over ride tickets.

The next largest revenue produced by the carnival comes from games which amounts to about \$15,000. Audit staff found that the carnival operates not only the games, but a number of souvenir stands. Operations of souvenir and novelty sales are not specifically addressed in the carnival contract. Moreover, the carnival operator does not submit a "certified statement of gross receipt" detailing the cash receipts from these sales, as required in the contract. Thus, monitoring of games and souvenir stand proceeds, if allowable, are not adequately established.

Lastly, the carnival pays about \$9,000 for operation of its food concessions. The audit found that, while the contract specifically limits the carnival to four food units, the carnival operated seven food units. It was also noted that not all the carnival food vendors submitted all the required food remittance reports, as similarly imposed on other food vendors operating during the Fair.

*The audit recommended* that Fair management request a "certified statement of gross receipt" from the carnival operator. It was also recommended that Fair management should clarify and/or expand the contract provisions by segregating the souvenir and novelty sales and having the operator bid separately on this category, and addressing the allowable number of carnival "food booths." Finally, the audit also recommended that Fair management should impose control procedures over all the carnival food booths by requesting that all its concessionaires use cash registers, submit duplicate copies of cash register tapes, and prepare a daily "food remittance report."

Finding IV-1. Cash handling procedures appear to be operating effectively to ensure that proper controls are established over cash receipts.

The audit found that the controls over cash generated through admission ticket sales and parking receipts were adequately established through the use of pre-printed tickets with sequential numbers. Ticket sellers and parking attendants were also required to reconcile cash collected to the tickets issued. Cash collected was also turned over to the Fair's "central bank," who verifies, reconciles and prepares the total proceeds of the day for deposit.

Finding IV-2. While the cash handling process operated effectively, the Fair lacks detailed, written procedures which may lead to the lack of consistent internal control procedures from year to year and among various personnel.

Audit staff noted that there were only brief, one-page summaries of instructions for admission, parking and central bank procedures. It appeared that many of the procedures in place were established through previous practices and any further instructions are conveyed verbally. However, a lack of detailed written procedures may lead to deterioration of the effectiveness of

the existing procedures over time through misunderstanding, new/inexperienced personnel and changes in requirements/circumstances.

*The audit recommended* that Fair management should reduce the existing internal control procedures for admission, parking and central bank to a detailed, written format and communicate these procedures to Fair staff each year.

Finding IV-3. Check cashing procedures, especially for Fair staff, need to be revised to ensure more effective controls.

Audit staff noted that the number of checks cashed through the Fair's central bank were made out to "cash." Since checks made out to "cash" are essentially a bearer instrument, it can be cashed by any holder of the check and thus can be directed for personal use. Audit staff also noted that Fair staff's payroll checks are being cashed by the central bank. This commingling of the official function of the central bank with personal needs of staff may minimize the internal control function of the bank. And, lastly, audit staff noted that, at least on two occasions, the Fair manager issued a personal check to cover the obligations incurred by outside organizations to the Fair. Later, when these organizations issued checks made payable to "King County" to cover its obligations, the Fair manager deposited these checks to her personal account. The Fair manager is not authorized to "cash" checks issued to "King County," and commingling of official transactions with that of a personal bank account should never occur.

*The audit recommended* that all checks cashed by the Fair central bank should be made payable to "King County" or "King County Fair," the Fair central bank should not be authorized to cash payroll checks for Fair staff, and the Fair manager or any other Fair staff should not deposit checks made payable to "King County" into a personal account under any circumstances.

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